

# The Influence of Company Size and Capital Structure towards Liquidity, Corporate Performance and Firm Value, for Large and Small Group Companies

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## Abstract

This research conducted based on a deep curiosity towards the issues of which among the key variables that will genuinely influence a company profitability and the Firm Value. Clustering the companies by its asset size ie. Large and Small Groups, was offered as the novelty of this research. Statistical testing method employed is Generalized Structured Component Analysis (GSCA) to measure the influence of Company Size and Capital Structure towards Liquidity, Financial Performance and Firm Value and to prove the moderation between the two company size clusters. This research found that essentially there was a significant different characteristic between the two groups, regarding the influence of the endogenic variables towards exogenic variable. It is then considered as a new contribution to the academic world, that the influence of endogenic variables towards exogenic variables are not identical one to another, when there is different assets size involved.

**Keywords:** Asset Size Grouping, Company Size, Capital Structure, Financial Performance, Liquidity, Firm Value, GSCA

## 1. Introduction

One of the focal points and main concerns in determining Financial Performance is Company Size (Asset). Company Size in this research represents the largeness and smallness of a company that is manifested from the total amount of activa value. Along with Company Size getting larger, there is a predisposition that there will be more investors who pay attention to that company. This is because large companies tend to have more stable conditions than small ones.

Next consideration is Capital Structure, Brigham (1983) remarks that “the higher the capital structure or the debt a company has, the more potential the company has to get profit”, additionally Miller and Modigliani (1958) propose “Irrelevance Theory” in which both financial experts firmly stated that “the level of company debt has no correlation with the company profit result”. In this regard, some other financial experts such as Donaldson (1961) as well as Myers and Majluf (1984) state a theory that is in contrary to that of Brigham’s proposal that “the higher the debt a company has, the more potential the company has to experience financial loss and even bankruptcy”.

Another essential variable in determining Firm Value is liquidity. In this research liquidity is measured through current ratio in order to measure company’s ability to pay its short-term liability using its current activa. Some research conducted by Huang, Wu, Yu and Zhang (2012) found that there is a positive correlation between liquidity and Firm Value, and this correlation is weaker in developing countries’ market than that in developed countries’ market.

Financial performance of a company can described from the profitability achieved by that company. Ang (1997) remarks that profitability ratio represents company accomplishment in gaining profit. Financial performance is one of the variables that can influence Firm Value. Having a large number of investors buying company shares, the price of the company shares will then be increased such that the Firm Value will be increased. Several argumentations which can explain the influence of financial performance (profitability) towards the Firm Value are: Saurabh Ghosh and Arijit Ghosh (2008), who stated that profitability improvement will be positively influential towards the Firm Value in the future; Menaje Jr. (2012), who states that EPS has a strong relationship with share price and ROA has a low negative correlation with share price.

This research is then conducted to investigate whether there is a difference of the influence of Company Size and Capital Structure towards Financial Performance, Liquidity and Firm Value within two different clusters of company according to the size of company asset. The companies will then be divided into two clusters according to the total amount of asset they have. In accordance to and founded upon the provisions used in Indonesia Stock Exchange, the groups will be defined from the amount of Total Asset of these companies, using basic clustering;

“a company is said to be a large company if that company has the amount of Total Asset more than 1 trillion rupiahs (> USD 100,000,000)” and “a company is said to be a small company if that company has the amount of Total Asset less than 1 trillion rupiahs (< USD 100,000,000)”. The companies in each cluster are then analysed by determining the influences of the Company Size and Capital Structure towards Financial Performance, Liquidity and Firm Value, which will then be compared. The companies observed in this research are manufacturing companies listed in Indonesia Stock Exchange or *Bursa Efek Indonesia* (BEI), during the year of 2010 through 2012.

## 2. Literature Review

### 2.1 Company Size

Company size is a measurement which describes the largeness or smallness of a company and is stated in the total amount of assets and net sell. Company size is the size or the amount of assets of a company. Elton and Gruber (2004) state that the asset size of a big company is considered to have a smaller degree of risk than that of a smaller company, this is because a big company is considered to have more access to capital market than a small one.

### 2.2 Capital Structure

Capital Structure, according to Gitman (2000), is the amount of funding that can be used for allocation by the company. That funding is gained from long-term debts and own capital of the company. For Weston and Copeland (2007), capital structure or company capitalization is a permanent funding that consists of long-term debts, preference shares and stakeholder shares. Besides, capital structure can also be defined as consideration or comparison between the amount of long-term debts and own capital (Riyanto, 2008). According to Kartadinata (2005), financial structure describes an overall composition beside credit balance which consists of short-term debts, long-term debts, share capital and reinvested profits.

### 2.3 Financial Performance

Financial Performance is a relative understanding about the profit gained by a company compared to the amount of capital invested in the company itself without being differentiated whether that capital is own-assets (such as share capital) or foreign assets (bank credit, letters of obligation) which is available in that company. For Soliha and Taswan (2002), financial performance is net profit margin that can be achieved by the company while conducting its operational actions. Meanwhile, according to Brigham and Gapenski (2006) profitability is the net result of a number of policies and decisions. Additionally, Saidi (2004) remarks that financial performance is the ability of a company to get profits. The purpose of investors' investing their shares in a company is to get return, which consists of yield and capital gain. The higher the ability to gain profits, the bigger the return expected by the investors, so that the Firm Value will be improved. According to Sujoko and Soebiantoro (2007), profitability becomes an essential consideration for investors in taking investment decision for shares.

### 2.4 Liquidity

Liquidity in general can be defined as the ability rate of a company to pay its overdue debts (Kasmir, 2008). Liquidity is also referred to the ability of a company to fulfill its financial liability within a short-term period or immediately (Mamduh, 2004). Husnan remarks that current ratio is a liquidity ratio which describes the ability of a company to fulfill its short-term liability that is about to be overdue. Current ratio is a ratio between current assets and current debts had by a company.

### 2.5 Firm Value

According to Weston and Copeland (1992), market value of the firm is equal to the total of the market value of the stocks and the market value of firm bond (and other debts), which refers to the market value of the whole components of the company financial structure. From this understanding, it can be inferred that Firm Value is the total value of stock market, letters of obligation and company debts. A high Firm Value will show the prospect of this company in the eye of the investors. A high share price makes the Firm Value also becomes high. A share price represents the price that occurs when the shares are traded in the market (Fakhrudin and Hadianto, 2001).

## 3. Hypotheses

### 3.1. The Influence of Company size towards Financial Performance

According to Hartono (2000), different company size elicits different job risks which are significant between a large and small company. A large company is considered to have smaller risks than a small company because a large company is considered to have access to capital market making it easy to get additional funding which can improve financial performance while the latter is not. Nevertheless, Moses (2007) states that a large company is a subject of political pressure such that if the company reports excessive profits will draw political awareness and can be suspected for conducting a monopoly; thus the higher the risk had by a company the higher the expected profitability rate which is considered as compensation towards the high risk; and in turn the lower the company ratio the lower the expected financial performance as compensation towards the low risk.

**H1: There is a significant influence of Company Size towards Financial Performance**

### *3.2. The Influence of Company Size towards Firm Value*

Company Size in this research represents the largeness and smallness of a company that is apparent from the total amount of company activa. The larger the size of a company is likely to have the more investors who pay attention to the company. This is because a large company tends to have more stable conditions. This stability attracts investors to have the company shares.

#### **H2: There is a significant influence of Company Size towards Firm Value**

### *3.3. The influence of Capital Structure towards Financial Performance*

From the viewpoint of financial management, financial leverage ratio is one type of ratio which is mostly used for company profitability improvement. Leverage ratio brings with itself essential implications in measuring company financial ratio. There is a negative influence within financial leverage because the company profitability is reduced as a consequence of the use of large company debts so that it causes fixed cost which has to be compensated and is estimated to be bigger than operating income generated by the debts (Martono, 2002). According to Subekti (2001), a company with growing profits has more beneficial opportunities in compensating its internal investment so that the company tends to avoid withdrawing some money from external parties. Besides, along with the improvement of profitability, profits-on-hold will also be improved so that the company interest to have loan proposals will be decreased and the DER ratio will likely be decreased.

#### **H3: There is a significant influence of Capital Structure towards Financial Performance**

### *3.4. The Influence of Capital Structure towards Firm Value*

Along with the leverage ratio becomes higher, there is a suggestion that the need of funding to be provided by the creditors needs to be higher (Hanafi, 2005). This will make the investors be more cautious to invest in the company having a high level of leverage ratio as the higher the leverage ratio the higher the investment risk (Weston and Copeland, 1992). Research conducted by Johan Halim (2005) found that leverage has a significant negative correlation towards Firm Value. Meanwhile, research conducted by Cheng, Liu and Chien (2010) found that there is a positive relationship between debt to asset ratio and Firm Value.

#### **H4: There is a significant influence of Capital Structure towards Firm Value**

### *3.5. The Influence of Capital Structure towards Liquidity*

The higher the debts had by a company, there will be a logical consequence that, the more the liability that the company has every and each time to the creditors, especially the liability towards the financial parties. Thus, it can be inferred that capital structure with a high rate of debts may cause the company to experience a liquidity hardship, or in other words, the DER which is used as Capital Structure indicators negatively influences Liquidity. Research conducted by Khanqah and Ahmadnia (2013) explains that there is a negative correlation between Capital Structure and the ratio of cash flow to assets as well as there is a negative correlation between Capital Structure (leverage) and the ratio of market value of assets to book the value of assets.

#### **H5: There is a significant influence of Capital Structure towards Liquidity**

### *3.6. The Influence of Liquidity towards Firm Value*

Current ratio is one of the liquidity measurement tools used for measuring company ability to pay its short-term liability using its own current activa. According to Sartono (1997), current ratio is a measurement tool for liquidity ability (short-term solvability), that is the ability to pay debts which has to be completed immediately using current activa. The higher the current ratio, the less the profit gained by the company. High current ratio represents the excessive of current activa that is not good for the company profitability; this is because current activa generates lower return than fixed activa (Mamduh and Halim, 2003). Research conducted by Huang, Wu, Yu and Zhang (2012) explained that there is a strong positive correlation between Liquidity and Firm Value, in which that correlation is in fact lower in developing countries market than developed countries'.

#### **H6: There is a significant influence of Liquidity towards Firm Value**

### *3.7 The Influence of Financial Performance towards Firm Value*

Financial performance used for measuring ability upon invested capital within the whole own-activa to generate profits is called ROA. In its calculation, ROA employs net profit after taxes divided by the total amount of company activa. The improvement of the total amount of dividend which will be accepted by the stakeholders attracts the investors' interest and/or candidates of investors to invest into the company so that the improvement in interest will promote more investors to invest in the company shares. This happens because the return from the shares is the difference between the current share prices and the previous share prices (Natarsyah, 2000). This condition is in line with the statement made by Ang (1997) that the increasing company profits provides a signal that the operational control and company financial gets better such that it gives positive influences towards equity. Research conducted by Ghosh and Arijit (2008) explains that the improvement of financial performance will be positively influential towards the future Firm Value.

#### **H7: There is a significant influence of Financial Performance towards Firm Value**

## **4. Data and Methodology**

This research employs panel data, which is the combination of cross-sectional data and data time series. The

population of this research consists of manufacturing companies listed in Indonesia Stock Exchange within the last three years, from 2010 to 2012. Out of the 131 manufacturing companies, 30 companies are taken as the sample of companies having large assets (> USD 100,000,000) and 30 other companies are taken as the sample of companies having small assets (< USD 100,000,000). The data of the companies is gained from ICMD within 3 years period from 2010 to 2012.

The data analysis is conducted using Generalized Structured Component Analysis (GSCA) which is developed by Heungsun Hwang, Hec Montreal and Yhoshio Takane in 2004. In regard to the research into Multi Group, Generalized Structured Component Analysis (GSCA) Multigroup data analysis is accordingly selected.

## 5. Findings and Discussions

### 5.1 Findings

Results of data analysis using GSCA presented on table 1.

Based on the statistical testing described by the above table, the summary of the hypotheses testing of the Large Asset Company Cluster is explained as follows:

Table 1. Correlation Coefficient between Variables

No	Correlation between Variables	LARGE ASSET CLUSTER			SMALL ASSET CLUSTER		
		Path Coefficient	P-Value	Conclusion	Path Coefficient	P-Value	Conclusion
1	Company size → Financial Performance	0.154	0.0263	Significant	0.09	0.3447	Insignificant
2	Company size → Firm Value	0.039	0.4144	Insignificant	-0.024	0.8032	Insignificant
3	Capital Structure → Financial Performance	-0.69	0	Significant	-0.412	0	Significant
4	Capital Structure → Firm Value	0.022	0.8109	Insignificant	-0.417	0.0018	Significant
5	Capital Structure → Liquidity	-0.699	0	Significant	0.172	0.4734	Insignificant
6	Liquidity → Firm Value	0.262	0.0074	Significant	0.012	0.889	Insignificant
7	Financial Performance → Firm Value	0.679	0	Significant	-0.804	0	Significant

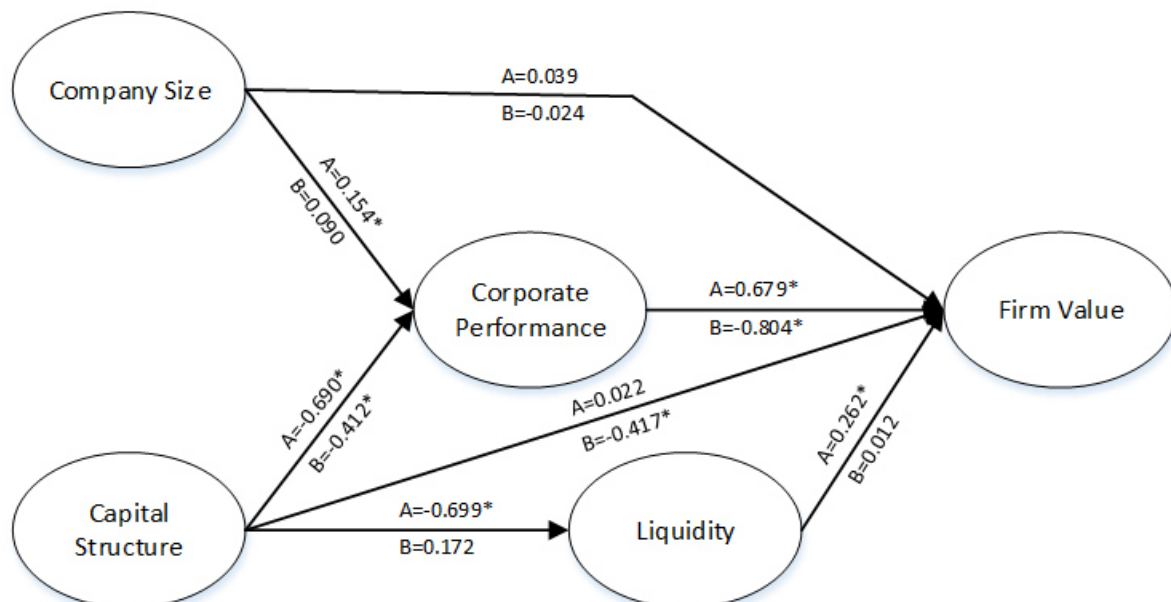


Figure 1. The Correlation between Variables

Note :

A = Correlation on Large Asset Cluster

B = Correlation on Large Small Cluster

#### H1: The influence of Company Size towards Financial Performance

The path coefficient by 0.154 and the p-value = 0.0263 show that the correlation is significant. Thus, it is concluded that the more the Company Size the better the Financial Performance.



## **H2: The influence of Company Size towards Firm Value**

The path coefficient by 0.039 and p-value = 0.4144 show that the correlation is insignificant. Thus, it is concluded that the Company Size has no significant influence towards the Firm Value.

## **H3: The influence of Capital Structure towards Liquidity**

The path coefficient by -0.699 and p-value = 0 show that the correlation is significant. Thus, it is concluded that the larger the Capital Structure the smaller the Liquidity.

## **H4: The influence of Capital Structure towards Financial Performance**

The path coefficient by -0.69 and p-value = 0 show that the correlation is significant. Thus, it is concluded that the larger the Capital Structure the worse the Financial Performance.

## **H5: The influence of Capital Structure towards Firm Value**

The path coefficient by 0.022 and p-value = 0.8109 show that the correlation is insignificant. Thus, it is concluded that the Capital Structure has insignificant influence towards the Firm Value.

## **H6: The influence of Liquidity towards Firm Value**

The path coefficient by 0.262 and p-value = 0.0074 show that the correlation is significant. Thus, it is concluded that the larger the Liquidity the higher the Firm Value.

## **H7: The influence of Financial Performance towards Firm Value**

The path coefficient by 0.679 and p-value = 0 show that the correlation is significant. Thus, it is concluded that the better the Financial Performance the higher the Firm Value is.

Based on the statistical testing as described by the above table, the summary of the hypotheses testing of the Small Asset Company Cluster is explained as follows:

## **H1: The influence of Company Size towards Financial Performance**

The path coefficient by 0.09 and the p-value = 0.3447 show that the correlation is insignificant. Thus, it is concluded that the Company Size has no significant influence towards the Financial Performance.

## **H2: The influence of Company Size towards Firm Value**

The path coefficient by -0.024 and p-value = 0.8032 show that the correlation is insignificant. Thus, it is concluded that the Company Size has no significant influence towards the Firm Value.

## **H3: The influence of Capital Structure towards Liquidity**

The path coefficient by 0.172 and p-value = 0.4734 show that the correlation is insignificant. Thus, it is concluded that the Capital Structure has no significant influence towards the Liquidity.

## **H4: The influence of Capital Structure towards Financial Performance**

The path coefficient by -0.412 and p-value = 0 show that the correlation is significant. Thus, it is concluded that the larger the Capital Structure the worse the Financial Performance.

## **H5: The influence of Capital Structure towards Firm Value**

The path coefficient by -0.417 and p-value = 0.0018 show that the correlation is significant. Thus, it is concluded that the larger the Capital Structure the lower the Firm Value.

## **H6: The influence of Liquidity towards Firm Value**

The path coefficient by 0.012 and p-value = 0.8890 show that the correlation is insignificant. Thus, it is concluded that the Liquidity has no significant influence towards the Firm Value.

## **H7: The influence of Financial Performance towards Firm Value**

The path coefficient by -0.804 and p-value = 0 show that the correlation is significant. Thus, it is concluded that the better the Financial Performance the lower the Firm Value.

### **5.2. Discussions**

#### **5.2.1 The influence of Company Size towards Financial Performance**

In the Large Asset Manufacturing Company Cluster or Upper Cluster, statistical testing results using GSCA model has been calculated and it was concluded that the Company Size had a significant influence towards the Financial Performance, with the Coefficient Ratio (CR) 2.26 and this value went beyond the significance upper limit, which is 0.05. It confirmed and supported the statement stated in a journal made by Dogan (2013), Akinbuli (2013) and Chang (2011). Basically, all economy experts and scientists posit that the more the assets of a company the easier the opportunities to increase sales and reduce the production cost and this condition will provide improvement in profits for large companies which have high stability rates in doing their jobs.

However, the significant influence between Company Size and Financial Performance did not occur in the Small Asset Manufacturing Company Cluster which had relatively smaller assets or in the Lower Cluster. Although it was confirmed that it had a positive correlation, the correlation was not significant, or in other words, it could be said that the Company Size in the Lower Cluster did not necessarily mean the improvement of sales improvement or the deduction of production cost; hence it eventually did not actually influence the Company Performance. This, in fact, was not contradictory towards its concept and theory but this finding in this Lower Cluster did not support the research finding had by Dogan, Chang or Akinbuli.

#### **5.2.2 The influence of Company Size towards Firm Value**

In this research it was found that in the Large Asset Company Cluster or Upper Cluster the Company Size had a

positive correlation, although not significant, towards the Firm Value. This was in line, although not significant, with the previous research findings conducted by Joyoung Sohn (2013), Michalski (2011), Sibilkov, Straska and Woller (2013) which stated that the amount of total assets would have a significant positive correlation towards Firm Value. It might be concluded that within the period of 2010 to 2012, when there was a great depression in the world market in general, the impacts applied to the local market which acted apathetically and was not influenced to do share transactions.

In particular, for Small Asset Company Cluster or Lower Cluster, a new finding was identified. It was found that there was a negative correlation, although not significant, between Company Size and Firm Value. This was not contradictory with the findings identified by Joyoung Sohn, Michalski and Sibilkov. This can be interpreted that there was an anxiety and sarcasm between market actors and investors in Capital Market.

#### *5.2.3 The influence of Capital Structure towards Liquidity*

For the Large Asset Company Cluster or Upper Cluster, it was found that Capital Structure had a significant negative correlation towards Liquidity thus this research supported and confirmed the statement made and previous research findings identified by Ramhall (2009) who stated that companies with Capital Structure and high debt rates would cause the companies to experience hardships in Liquidity. These research findings also supported the findings of the previous research conducted by Khanqah and Ahmadi (2013) which explained that there was a negative influence of Capital Structure towards ratio cash flow to asset and there was a negative influence of Capital Structure (leverage) towards ratio market value of assets to book value of asset.

Nevertheless, the above finding is not applicable for the Small Asset Company Cluster in Lower Cluster. Although it is not significant, there was actually a positive influence of Capital Structure towards Liquidity in the Lower Cluster. This phenomenon can be explained in a sense that the companies with relatively small assets have added their loans in order to maintain their liquidity position, and practically there was no capital outflow taking place. Additionally, these companies also did not complete their dividend payment in a certain period of time as they used the depression of the economy world as an excuse.

#### *5.2.4 The influence of Capital Structure towards Financial Performance*

Within the two company clusters, either the Upper Cluster or the Lower Lever Cluster, the results of data analyses provided equivalent and consistent findings of which the Capital Structure has a significant negative influence towards Financial Performance. This means that every upgrading in debts will have a negative effect or will decrease the Company Profit Rates. The fact that this upgrading in debts results in the decreasing of profitability was essentially a logical consequence from the improvement of loan interests which took place between 2010 and 2012 in which the method of this research was developed. This research finding supported a previous finding identified by Velnampy and Niresh (2012) of which the research conclusions show that there was a significant and negative correlation of debt to equity ratio and net interest margin towards profitability. This research finding also supported a finding of previous research conducted by Barclay, Smith and Watts (2001) who concluded that the higher the Debt to Equity Ratio the more the Financial Cost that the company has to compensate and consequently the less the Company Performance. This research finding also supported a finding of previous research conducted by Brigham and Houston (2001) which stated that Debt to Equity Ratio had a negative influence towards Return On Equity. Some findings of other previous research that do not support with a conclusion that the use of higher Leverage would decrease the company profitability are those conducted by Ni and Yu (2008), Abor and Biekpe (2009), Karadeniz (2009), Morri and Criztianziani (2009) and Qian (2009).

#### *5.2.5 The influence of Capital Structure towards Firm Value*

Research into the influence of Capital Structure towards Firm Value results in contrastive findings between the Upper Cluster with Large Assets and the Lower Cluster with Small Assets.

In the Upper Cluster, the influence of the Capital Structure towards the Firm Value is positive, but not significant, this supported the conclusion table proposed by Prof. Suhadak and Ari Darmawan in their book entitled "*Pemikiran Kebijakan Manajemen Keuangan*" (2011), where there was a proposal that the correlation between Leverage and Firm Value is positive and not significant, this finding also supported the research findings identified by Chen and Ho (2000), Garay and Gonzales (2008), and Florackis (2009). Further, this research conclusion supported the research findings of that in Cheng, Liu, and Chien (2010) but was contradictory to that of Weston and Copeland (1992).

In turn, in the Lower Cluster, a conclusion from this research was drawn that the influence of Capital Structure towards Firm Value was significant and negative; this supported a finding of the research conducted by Weston and Copeland (1992).

In the Lower Cluster, the research of this dissertation generates a conclusion that Capital Structure has a significant negative influence towards Financial Performance, which means that the higher the debt rates of a company the lower the company profitability.

#### *5.2.6 The influence of Liquidity towards Firm Value*

In this research, it is concluded that in the Upper Cluster there was a significant positive correlation of Liquidity

towards Firm Value, which means that the more liquid the financial condition of a company the higher the Firm Value. This research finding supports a finding of previous research conducted by Wu, Yu and Zhang (2012) as well as a research finding identified by Fang, Noe and Tice which stated that there is a strong and positive correlation between Liquidity and Firm Value.

In the Lower Cluster, the similar thing was also found to be applicable but not significant; there was an insignificant positive influence of Liquidity towards Firm Value and this has been mostly valid in developed countries but has not been absolutely valid in developing countries.

This research finding supports the research finding identified a research report written by in Hwang, Wu, Yu and Zhang (2012) who concluded that there was a positive correlation of Liquidity towards Firm Value but the validity of this was low for developing countries or companies which are relatively small.

#### *5.2.7 The influence of Financial Performance towards Firm Value*

In this research, some contrastively different conclusions were identified between the two Asset Size Clusters. In the Upper Cluster which has larger assets, it was found that the Financial Performance had a significant positive influence towards the Firm Value. Meanwhile, in the Lower Cluster which has smaller assets, it was found that the Financial Performance had a significant influence and relationship although negatively towards the Firm Value.

The research finding in the Upper Cluster is similar to the findings of some previous research conducted by Varaiya and Kerin (1997), Ghosh and Arijit (2008), Menaje Jr (2012) and Ang (1997).

On the other hand, in the Lower Cluster which has smaller assets, it was found from the research that the Financial Performance had a significant negative influence towards and correlation with the Firm Value. This research finding is corresponding to and supports previous research conducted by Crutchley (1999), Farinha (2003), Pattenden and Twite (2008) which suggested an argumentation as they found evidences in their research that profitability had a significant negative influence towards dividend.

Menaje Jr. (2012) in his research in companies listed in the Philippines Stock Exchange concluded that there was a negative correlation between Company Financial Performance especially in this case measured from Return On Asset, with the Firm Value which in this case was measured and represented by Share Closing Price.

## **6. Conclusions**

From the above findings and discussions, this research concluded and could be synthesized as follows:

a. In Indonesia Stock Exchange particularly for manufacturing companies listed in the year 2010 to 2012, this research found the influence of Company Size and Capital Structure towards Liquidity, Financial Performance and Firm Value shows **different results** between the Large Assets Cluster and the Small Asset Cluster

b. From the research findings in Indonesia Stock Exchange, especially for Manufacturing Companies within the Large Assets Cluster which were listed in the year 2010 to 2012, it can be concluded that the influence of Company Size and Capital Structure towards Liquidity, Financial Performance and Firm Value there are some established provisions:

- The Company Size variable has a significant yet negative influence towards the Financial Performance
- The Capital Structure variable has a significant negative influence towards the Company Liquidity Condition
- The Capital Structure variable has a significant positive influence towards the Company Financial Performance Condition
- The Company Financial Performance variable has a significant negative influence towards the Firm Value

c. From the research findings in Indonesia Stock Exchange, especially for Manufacturing Companies within the Small Assets Cluster which were listed in the year 2010 to 2012, it can be concluded that the influence of Company Size and Capital Structure towards Liquidity, Financial Performance and Firm Value there are some established provisions:

- The Capital Structure variable has a significant negative influence towards the Company Financial Performance
- The Capital Structure variable has a significant positive influence towards the Firm Value Improvement
- The Company Financial Performance has a significant positive influence towards the Firm Value Improvement

## **7. Recommendations**

Based on the research conclusions, we herewith recommend the following:

- Considering the facts that different company asset size has resulted different influence on the financial variables, it is recommended to consider the effect of asset size to avoid bias on the next financial project

research

- To the stock traders and capital markets investors, it is recommended to take into account that different asset size will reflect different yields
- To those companies who have the intention to be listed in the stock exchange, should consider the investor's different response towards different company size
- To the banking sectors, this research result gives a good clue to guide the credit approval process
- Government could also use this research as the information to set up credit policies to support small scale industries.

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